

TWENTIETH
ANNUAL REPORT
OF THE
Board of Directors
OF THE
Pennsylvania Railroad Co.
TO THE
STOCKHOLDERS,
FEBRUARY, 19, 1867.

PHILADELPHIA :
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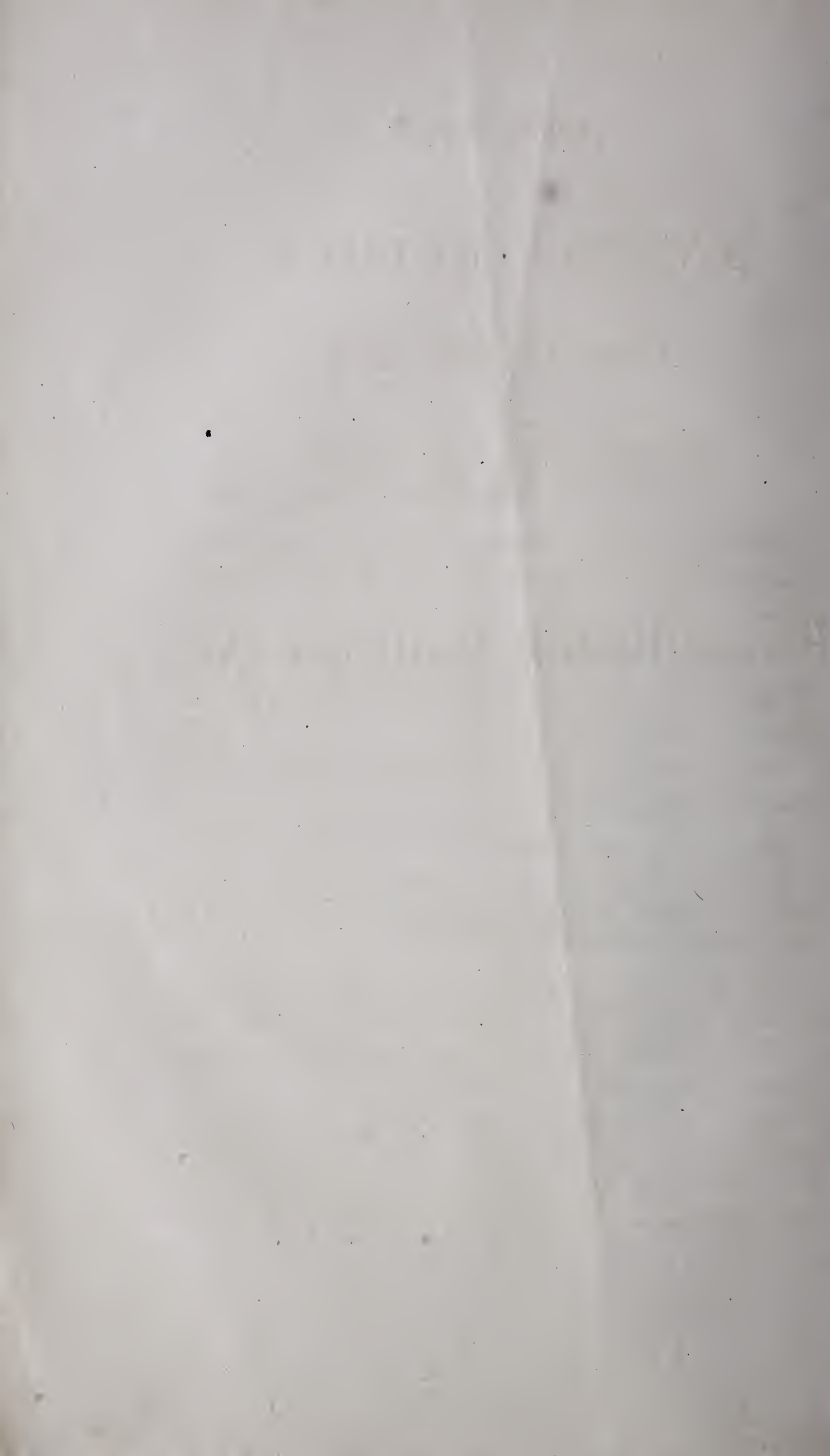
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ANNUAL MEETING.

Philadelphia, February 19, 1867.

The Annual Meeting of Stockholders of the Pennsylvania Railroad Company was held at 10 o'clock, A. M., at the Board of Trade Rooms.

On motion of Mr. Solomon W. Roberts, the Hon. Morton McMichael, Mayor of the City, was called to the Chair, and Edmund Smith appointed Secretary.

The Secretary read the Annual Report of the Board of Directors for the year 1866.

Mr. H. N. Burroughs moved

That the Report of the Board of Directors be and the same is hereby accepted by this meeting, and that it be referred to the incoming Board for publication.

Col. Page offered a resolution as a substitute, which was seconded, on behalf of the Board of Directors, by Theodore Cuyler, Esq. After some modification the resolution introduced by Col. Page was adopted, as follows :

Resolved, That the Report be referred to a special Committee of seven Stockholders for examination, and that the said Committee be further specially authorized and directed to examine into and report upon the expediency of issuing additional stock and

borrowing more money, and further to examine into and report upon the operation and working of the systems of discrimination, of free passes, and of private freight expresses, and to what extent the officers and employees are interested in the last, and the effect these have had and still have upon the earnings of the Road and the rights and interests of the Stockholders, with power to send for persons and papers, and report the result of their investigations to an adjourned meeting of the Stockholders, to be held on the last Tuesday in April next, at such hour and place as notice may be given by public advertisement—the Board of Directors in the meanwhile to cause the Annual Report to be printed for the information of the Stockholders.

On motion of Mr. A. J. Derbyshire, it was

Resolved, That the Committee of seven Stockholders, as provided for in the resolution just adopted, be appointed by the Chairman.

The meeting then adjourned to meet on Tuesday, the 30th day of April, 1867.

MORTON McMICHAEL,
Chairman.

EDMUND SMTH,
Secretary.

TWENTIETH ANNUAL REPORT.

Office of the Pennsylvania Railroad Company,

Philadelphia, February 19, 1867.

To the Stockholders of the

Pennsylvania Railroad Company.

The following statements will exhibit the financial condition of the Company on the 1st of January last, and the earnings and expenses of your Railroads and Canals during 1866.

Dr.

	DOLLARS.	Cts.
To Capital Stock.....	20,000,000.	00
" First Mortgage 6 per cent. Bonds.....	4,980,000	00
" Second " " ".....	4,904,840	00
" Lien of State upon the public works sold to this Company, bearing 5 per cent.....	6,600,000	00
" Short Bonds, or Debentures, 6 per cent.....	1,554,015	75
" Mortgages and Ground Rents. 6 per cent.....	170,184	32
" Bills and Accounts payable, including dividends due to Stockholders, unpaid.....	3,062,144	45
" Extra Dividend Fund.....	1,110,000	00
" Contingent Fund.....	1,000,000	00
" Harrisburg and Lancaster Railroad Company's Stock.....	1,182,550	00
" Harrisburg and Lancaster Railroad Company's Bonds	700 000	00
" Balance.....	870,415	02
	<hr/> \$46,134,149	<hr/> 54

CR.

	DOLLARS.	CTS.
By Balance standing on the Books of Company for the Construction of the Railroad between Harrisburg and Pittsburgh, including Branches to Indiana and Hollidaysburg, (in all 276 miles,) also for Cost of Stations, Warehouses, Shops and Shop Machinery, on the whole road from Philadelphia to Pittsburgh.....	\$13,500,000	00
" Cost of Harrisburg and Lancaster Railroad, when delivered to this Company, including Branch to Columbia, (in all 55 miles).....	1,882,550	00
" Balance standing on the Books of the Company, for the purchase of the Philadelphia and Columbia Railroad and the Pennsylvania Canals.....	6,600,000	00
" Balance standing to debit of Equipment of Road, consisting of 452 Locomotives, 240 Passenger Cars, 103 Baggage, Mail and Express Cars, 6,953 Freight Cars, and 923 Road Cars.....	3,371,214	93
" Cost of Real Estate of Company and Telegraph Line...	3,421,480	91
" Extensions of Pennsylvania Railroad to the South Bank of the Monongahela and to the Delaware River, including Wharves and Grain Elevator.....	2,121,157	77
" 14,533 Shares Harrisburg and Lancaster Railroad Stock.....	30,896,403	61
" Western Pennsylvania Railroad Stock and Bonds...	726,650	00
" Cost of First and Second Mortgage Bonds, Pittsburgh and Steubenville Railroad Company.....	183,450	00
" Steubenville and Indiana Railroad First Mortgage Bonds, owned by Company.....	738,205	20
" Philadelphia and Erie Convertible 7 per cent. Bonds, (the remainder of the \$3,000,000 loan being in Sinking Fund).....	1,262,651	52
" Amount of other Bonds and Stocks of Municipal and Railroad Corporations.....	439,000	00
" Cost of Bonds and Stocks in Sinking Fund.....	1,570,342	74
" Amount of Fuel and Materials on hand for repairs to Locomotives, Cars and Maintenance of Way on Pennsylvania Railroad	1,996,367	68
" Amount advanced to pay for Fuel and Materials on hand for repairs to Locomotives, Cars and Maintenance of Way for Philadelphia and Erie Railroad.....	1,378,404	10
" Amount advanced to operate Philadelphia and Erie Railroad.....	449,220	39
" Amount advanced to operate Philadelphia and Erie Railroad.....	725,130	02
" Amount of Bills and Accounts Receivable and Amount Due from other Railroads.....	4,148,063	93
" Balance in hands of Agents.....	577,018	89
" Balance in hands of Treasurer, including \$420,000 U. S. 5-20's.....	1,043,241	46
	\$46,134,149	54

The Shareholders will perceive, by comparing the above items with their cost, as shown in previous reports, that in addition to the payment of dividends upon your *original* investment, equal to 46 per cent. above legal interest, the cost of your Road from Philadelphia to Columbia has been reduced \$900,000, and from Harrisburg to Pittsburgh, \$6,426,855, from the surplus profits of the Company; and the Equipment of the Line, which has cost \$10,603,559 55, is now represented at \$3,371,214 93.

The Sinking Fund, which cost \$1,996,367 68, it is believed is ample, with its accruing income, to take up at maturity the debt of the Harrisburg and Lancaster Railroad Company, the Second Mortgage Bonds of this Company, and still leave in it all the stocks that it is important that this Company should retain for the security of its traffic. This conservative policy has been pursued in view of the adventitious character of the traffic of the line during the past five years, and for the purpose of giving to the Company a financial strength which will render the continuance of its dividends certain, independent of the action or policy of rival lines.

The Company has been placed in this strong position while it has, at the same time, to a larger extent than any other Corporation of the kind, promoted the development of the interior of the Commonwealth by aiding the completion and extension of other Railroads where private capital would not incur the risks of such investments.

The Pennsylvania Railroad was commenced under the sanguine hope that it could be completed and equipped *without* incurring *a debt*. The efforts of the Company in this direction, in view of the great abuse that had attended the financial operations of the earlier corporations of this State, were eminently wise and worthy of an earnest effort to carry them into effect. But after some years of persistent labor it became evident that the enterprise was too great for the local capital of this City without submitting to a delay in its completion, which neither the commercial prosperity of Philadelphia, nor the interest of the shareholders of the Company would justify. This policy was therefore abandoned for one which limited the mortgage indebtedness of the Company to its *capital stock*.

At the commencement of its work, the views of the Company extended only to the construction of a railway between Harrisburg and Pittsburgh. But in operating such a line in connection with the uncertain and frequently adverse management of the Philadelphia and Columbia Railroad, under the State authorities, it became evident that it must fail to meet the just expectations of its projectors, unless an independent connection could be made with its commercial depot, or a lease or purchase of the existing lines effected. After many abortive efforts, this object was accomplished by a lease of the Harrisburg and Lancaster Railroad, and the purchase of the State improvements at a high price, but upon a satisfactory credit. The great point, however, of securing harmonious action throughout the line, from Philadelphia to Pittsburgh, was accomplished, which at once imparted new life and vigor to the enterprise, and insured its prosperity.

It was early foreseen that a trunk line, intended to accommodate the traffic between the East and West, would fail in its object if wholly dependent upon the uncertain navigation of the Ohio River as a feeder. The earlier commencement of the other trunk lines had already diverted the routes of the railroads in progress from the commercial centres of the West towards the East, to their works. To overcome this disadvantage, it became essential that other lines connecting your road with these trade centres of the West should be commenced, and to effect this, direct and efficient aid by this Company towards their construction was necessary. So fully impressed were the Shareholders of this Company at the time, of the importance of this movement, that, in voting such aid, they exceeded the views of the Directors. The three principal lines selected for

such aid were one to Cincinnati, a second to the centre of Ohio, at Columbus, and a third towards Chicago. The connection with Cincinnati via Marietta was adopted, and failed from the inadequate means provided to construct a line over what proved to be an unexpectedly rugged country. The line to Chicago was only saved as an investment, after the failure of the credit of that Company, by much labor and large additional outlays by this Company to secure its completion. These efforts were crowned with entire success, and the enterprise, both financially and as a feeder of your main line, has met our most sanguine expectations.

The line to Columbus,—which also afforded an equally good connection with Cincinnati as that via Marietta, though leaving a large district of country tributary to another railway—after long delays, growing mainly out of a failure to procure adequate legislation in Virginia, has recently been brought into efficient use, and promises satisfactory results. The Pennsylvania Railroad Company will own as a preferred shareholder more than half of the capital stock of this line.

The eastern end of this line, known as the Pittsburgh and Steubenville Railroad, extending from Pittsburgh to the Virginia State line, was commenced under the patronage of the City of Pittsburgh and Allegheny County, but owing to the absence of any legal right to extend its road to the Steubenville and Indiana Railroad across Virginia, it failed to obtain a credit that would justify any responsible individuals in undertaking its construction. A further increase of its capital stock was therefore impracticable.

A contract was entered into by the Pittsburgh and Steubenville Railroad Company, with parties of insufficient capital, for the

completion of this line, which, as might have been expected, only resulted in still further embarrassing the condition of the Company by a disproportionate increase of its indebtedness, compared with the work done. After further efforts to secure other parties to build the road, a contract was entered into with the Western Transportation Company for that object—a corporation in which this Company became the chief shareholder—and through its instrumentality a concession was obtained from Western Virginia, permitting the construction of a railroad across that State. From this period the work was pushed with as much vigor as the condition of the labor market would permit, notwithstanding the extraordinary advance that had taken place in every element that entered into the cost of constructing railways. Under this contract, the work has been opened for use for more than a year. In view of the expenditures that had been made upon the line, and those directed to be made under the commutation act, it was, at the time, deemed best to advance the means required to complete this line; but, in consequence of the unexpectedly large amount required, it would have probably been better to have permitted the road to have been sold, and thus divested it of the complications surrounding it and which now render such a sale essential to ascertain the relation of its creditors. There is much work still to be done, to complete this road in a manner that will enable it to meet the demands of its traffic.

The Marietta line, which had enlisted the warmest support from the shareholders and the merchants of this city, of either of the lines mentioned, became so hopelessly involved that the funds advanced by this Company, for the construction of that part of the road between Marietta and Wheeling, were taken with-

out our assent, to meet its debts incurred upon the line west of that point. In consequence of this misapplication of the means furnished by this Company, and the immense sums that would have been absorbed in carrying out the original plan, it was not deemed prudent to make any attempt to save the amount invested in the enterprise, under your instructions. This amount was accordingly charged to profit and loss, and its stock no longer appears among your assets.

The interest of the Company in the Chicago line has nearly all been disposed of, at a profit to this Company fully equal to its loss upon the Marietta line. But for the timely aid afforded by this Company, it would have proved, as an investment, nearly as unproductive.

The completion of the Columbus route having, in consequence of want of legal authority in Virginia, been thrown into a period of inflated prices, its cost has so far exceeded our anticipations that it will require a long time for it to repay this Company in direct returns for the outlays incurred. For these expenditures it has received various securities, some of which have been disposed of, and on the remainder there will probably be no loss except a few years of interest, for which the indirect advantages gained by the Company must be its compensation.

The shareholders will perceive, from this resumé of the operations of the Company, the extent of the means required, and the labor and responsibility incurred to save the original investments made under your instructions, to build up lines to connect yours with the trade centres of the West—expenditures that were necessary to the success of your own work, but which a few years earlier commencement of it would have rendered unne-

cessary, as the tendency of the Western lines would probably then have been towards Pittsburgh.

These expenditures have frequently been referred to by shareholders as unwise, without reflecting that they were the result of their own action, and that the Officers of the Company are really the parties to complain of the immense unrequited labor and responsibility they have had to assume to save the object the Company had in view in making these investments, and in providing the means necessary to effect them. That they have required outlays, to secure the original objects, far exceeding any just expectation at the time they were entered into, is quite true; but this has arisen from the inadequate stock basis furnished by their shareholders for the completion of these works and the subsequent increased cost of building railways. The result, however, we think will justify the policy of this Company.

These extraordinary outlays were commenced while the traffic of this line was comparatively small, and burthened by a heavy impost duty levied by the State, and assessed upon no other competing line, greatly diminishing its ability to meet these necessary expenditures to ensure the prosperity of the State—and from which burthen it was only released upon condition that the Company would apply the unpaid instalment towards the construction of the Mifflin and Centre County, Bedford, Bald Eagle Valley, Tyrone and Clearfield, Ebensburg and Cresson, Western Pennsylvania, and the Pittsburgh and Steubenville Railroads—all improvements within the Commonwealth. The effect of this mandate was the same as that which followed the appropriations made by the stockholders to Western lines, already stated, entailing upon this Company either

the loss of the whole investment directed to be made, or advances of the additional amounts required to complete these works. The Board saw no other alternative but to meet this difficulty by the adoption of a liberal and active policy, and thus bring all of these lines into productive use as speedily as practicable. The outlays necessary to secure this object, from the causes already referred to, have been very large, but the results have proved much more satisfactory than if the original expenditures had been suffered to remain unproductive, as would have been the case if they had simply fulfilled the requirements of the law. The further extension of some of these lines will still be necessary, to enable them to become productive and meet the wants of the districts they were built to accommodate.

We have thus presented to you the extent, and the causes for the unusually heavy expenditures made by this Company on account of its tributaries. Their magnitude has made it necessary, not only to protect the investments made in them, but also to secure the control of other lines important to their success. This policy has eventuated in a system which includes the Philadelphia and Erie and Northern Central Railroads, by which the Company's cars find their way over continuous and unbroken lines, under one control, from Columbus, Erie and Pittsburgh to Philadelphia and Baltimore.

To meet the expenditures, but partially enumerated, without financial sacrifices, and still preserve the relation between the share capital and debts of the Company, as already indicated as the settled policy of this Company, has been attended with some difficulties. But the rule is one that should not be exceeded by any prudent railway corporation.

To preserve this relation, and place your financial system upon a basis that may be easily understood, while it is at the same time sufficiently 'comprehensive for the future wants of the traffic seeking your line—which will doubtless increase with the growth and prosperity of the country—the Directors have procured an amendment to the Charter which permits the requisite increase of the share capital of the Company and prohibits the issue of mortgage bonds exceeding its capital stock.

The increase of the capital of the Company, under this Act, may be effected in one of three ways. First, by a sale of the shares. Second, by a subscription to the stock of the Company, in which each shareholder will have the right to participate in proportion to his interest; and Third, by stock dividends.

The first plan is deemed inexpedient. The second, which is the best, has been objected to by the City of Philadelphia, in consequence of her inability to participate in the advantage of such subscription, owing to a constitutional prohibition of the further exercise of such powers by municipal corporations. The third, therefore, is the only one to meet existing circumstances, and with a view to carry this plan into effect, the Directors have passed the resolution annexed to this report, which is submitted for your approval. It is believed that in addition to cash dividends, a dividend of 5 per cent. in stock may be declared annually under any ordinary condition of the country, and still leave an ample surplus to the credit of profit and loss to preserve the property of the Company at its present high standard of efficiency and value.

The responsibilities assumed by this Company, through the endorsement of the bonds of other railroad corporations, are confined to the first mortgages of the Philadelphia and Erie

Railroad Company, amounting to five millions of dollars, the Western Pennsylvania Railroad Company for eight hundred thousand dollars, and the Connecting Railway Company for one million of dollars. In the two last named companies, the Pennsylvania Railroad Company is also the owner of nearly all their share capital, and upon the first it has a lease for 999 years.

The Connecting Railway has been leased to the Philadelphia and Trenton and Camden and Amboy Railroad Companies for legal interest upon its whole cost, which will be twice the amount of coupons falling due upon the issue of its bonds so guaranteed.

The net revenues of the Western Pennsylvania Railroad Company, since its extension to Pittsburgh, have been sufficient to meet its interest, and these must continue to increase, while the thirty per cent. due to the Philadelphia and Erie Railroad Company under its lease, and first applicable to the payment of the coupons upon their bonds, is already largely in excess of the amount required for this object. It will therefore be seen, that the revenues of these Companies are amply sufficient to meet the interest upon the bonds so endorsed, and that they cannot become a charge upon the net revenues of this Company.

The bonds of these railroad companies, with the exception of \$1,200,000 of those of the Philadelphia and Erie Railroad Company, were endorsed after their purchase by this Company, and were so endorsed to secure a better market price for this Company when sold by it.

The propriety of selling the bonds of lines aided by this Company, either with or without its endorsement, is questionable, inasmuch as better results can be obtained by the use of

the direct credit of the Company. Hitherto, however, there has been no alternative, as the powers of the Company have been too circumscribed to act upon such a policy.

The earnings and expenses of the Pennsylvania Railroad, and the roads worked by it, except the Philadelphia and Erie Railroad, were for 1866 as follows :

EARNINGS.

From Passengers, 1st class,	-	-	\$3,245,800	06
“ Emigrants,	-	-	139,721	25
				<hr/>
				3,385,521 31
“ United States Troops,	-	-	-	560,945 44
“ “ “ Mails,	-	-	-	82,730 00
“ Express matter,	-	-	-	374,369 22
“ General freights,	-	-	-	11,709,293 59
“ Miscellaneous sources,	-	-	-	471,023 28
				<hr/>
				\$16,583,882 84
				<hr/>

EXPENSES.

CONDUCTING TRANSPORTATION.

For ordinary expenditures,	-	-	\$3,492,008	80
“ erection of passenger and freight stations				
and extension of existing buildings,			154,743	42
				<hr/>
				\$3,646,752 22

MOTIVE POWER.

For ordinary repairs and renewals,	-	\$2,919,122	47
“ erection of machine shops and engine			
houses,	-	-	121,724 59
“ additional tools and shop machinery,			
(\$27,515 56 of which was for the Philadelphia and Erie Railroad shops,)		85,225	77
“ additional locomotives purchased during			
1866,	-	-	671,758 80
			<hr/>
			3,797,831 63

MAINTENANCE OF CARS.

For ordinary repairs and renewals, &c. &c.,	\$1,070,912 77	
“ additional freight cars, - - -	693,766 37	
“ “ passenger cars, - - -	196,363 06	
	<u> </u>	1,961,042 20

MAINTENANCE OF ROAD.

For ordinary repairs of railway and renewals of structures, - - - - -	\$2,845,465 58	
“ additional second track and sidings, - - - - -	250,965 09	
	<u> </u>	3,096,430 67
“ General Expenses, - - - - -		288,852 55
Total expenditures connected with the business of the Pennsylvania Railroad Company, including addition to the facilities for transportation on its own road and that of the railroads it operates, &c., - - - - -		<u> </u>
		<u>\$12,790,909 27</u>

RECAPITULATION.

Gross Earnings, - - - - -	\$16,583,882 84	
Total ordinary expenses, - - - - -	\$10,616,362 17	
“ extraordinary “ consisting of additional second track and sidings, additional locomotives, cars, &c., - - - - -	2,174,547 10	
	<u> </u>	12,790,909 27
Leaving a balance of - - - - -		<u>\$3,792,973 57</u>

The gross revenue of the line for 1866 is equal to \$46,323 41 per mile of main line of road (358 miles,) and is less than the aggregate receipts in 1865, \$875,286 65.

The decrease upon passengers and emigrants is	-	-	\$788,671 56
“ “ “ expresses is	-	-	109,354 63
“ “ “ Government troops is	-	-	717,899 16
			<hr/>
			1,615,925 35

and

The increase on United States Mails,	-	\$ 2,599 45	
“ “ “ regular freights,	-	515,728 22	
“ “ “ miscellaneous,	-	222,311 03	
		<hr/>	740,638 70
			<hr/>
Total decrease,	-	-	<hr/> <hr/> \$875,286 65

The whole number of passengers carried in 1865 was 2,861,836, and during the past year, 2,673,568. The average distance travelled by each passenger was 52 miles, and the previous year 71½ miles ; this difference being due to the larger amount of through travel and troops in 1865.

The number of tons of freight moved (including 266,359 tons of fuel and other materials transported for the Company,) was 3,452,718, embracing 1,413,181 tons of coal. The increase in the coal traffic is 338,424 tons, and the whole tonnage of the road exceeds that of last year, 653,908 tons, nearly 25 per cent.

The ordinary expenditures for working and maintaining the Company's roads were \$10,616,362 17, which is equal to 64 per cent. of their revenues, or, including the expenditures for construction and equipment upon its own line, and the outfit of the Philadelphia and Erie and other railroads, 77 $\frac{12}{100}$ per cent.

The earnings of the Company's canals were :

From Susquehanna Division,	-	-	-	-	-	\$252,681 42
“ Juniata “	-	-	-	-	-	35,175 32
“ miscellaneous sources,	-	-	-	-	-	10,010 42
Total earnings,	-	-	-	-	-	<u>\$297,867 16</u>

Against \$181,015 38 for 1865.

The cost of maintaining, enlarging and operating the canals, was :

For Susquehanna Division,	-	-	-	-	-	\$130,212 93
“ Juniata “	-	-	-	-	-	101,501 50
“ Western “	-	-	-	-	-	1,723 55
Total expenses,	-	-	-	-	-	<u>\$233,437 98</u>

Showing a net profit during 1866 of \$64,429 18.

Estimating the value of these canals when purchased at one million of dollars, they now stand this Company, including interest and the cost of their renewals and enlargement as far as it has progressed, at about \$2,750,000, for which sum they will be sold to the Pennsylvania Canal Company for stock in said Company, in pursuance of the policy sanctioned at your last annual meeting.

It is believed, that the growing bituminous coal and lumber transportation that may be thrown upon the Pennsylvania Canal, at or near Huntingdon will, upon its enlargement, make it a profitable investment. Above Huntingdon, it must in consequence of a great amount of lockage, eventually be abandoned, and a railway occupy its route, along which there exists an abundant water power to give life and activity to a large manufacturing population.

The earnings of the Philadelphia and Erie Railroad, in 1866, were :

From Passengers,	-	-	-	-	-	\$686,621 78
“ Troops,	-	-	-	-	-	48,103 13
“ Freight,	-	-	-	-	-	1,744,299 13
“ Express matter,	-	-	-	-	-	26,941 43
“ Mails,	-	-	-	-	-	18,501 96
“ Miscellaneous sources,	-	-	-	-	-	16,584 36
						<hr/> \$2,541,051 79

Deducting taxes, overcharges, &c., \$98,589 13 from \$2,541,051 79, leaves \$2,442,462 66 as the sum upon which 30 per cent. is due the Philadelphia and Erie Railroad Company, amounting to - \$732,738 80

The operating expenses during the same period were :

For conducting transportation,	-	-	620,845 80
“ maintenance of way,	-	-	624,245 02
“ motive power,	-	-	682,947 62
“ maintenance of cars,	-	-	158,936 09
			<hr/> \$2,819,713 33

Showing a loss to this Company in operating the line of \$278,661 54

This loss is largely to be attributed to the bad condition of the older bridges erected by the Philadelphia and Erie Railroad Company over the Susquehanna, and the unfinished character of the work generally upon the whole line.

The passenger travel has fallen off during the year in sympathy with that of nearly all of the other railways of the country. To this general depression this line has also had added to it, the loss of travel from the decay of the speculative excitement of the oil region, while the same train accommodation has to be maintained.

The tonnage of the Philadelphia and Erie is mostly made up of cheap products that can only be moved at low rates of transportation, which under the existing condition of the business of the country, are inadequate to meet the cost of their movement at the per centage stipulated in the lease of the road. This traffic has been quite irregular during the past year, though in the aggregate it has largely increased over that of 1865, and must continue to grow with the increase of the population of the region traversed, while the relative transportation expenses can only be reduced by this enlargement of its business and a fall in the prices of labor and materials.

Arrangements are being made to increase the business of the road by the establishment of a line of steamers between Erie and the other lake ports, under the patronage of this Company, with anticipations of successful results.

The future of this great work is very encouraging, but its traffic, as in all other similar projects, will require the application of capital and time to develop. The transportation facilities are ample for the accommodation of all the business that can be offered to it during the present year.

The whole revenue of the Pennsylvania Railroad Company from its several lines is as follows, viz:

From the Pennsylvania Railroad and branches,	-	\$16,583,882 84
“ “ Canals, . - - -	-	297,867 16
“ Philadelphia and Erie Railroad,	- -	2,541,051 79
Amount carried forward,		- - \$19,422,801 79

And the expenses of operating these lines are :

Amount brought forward,	-	-	\$19,422,801 79
Pennsylvania Railroad, ordinary,	-		\$10,616,362 17
“ “ extraordinary,			2,174,547 10
“ Canal,	-	-	233,437 98
Philadelphia and Erie Railroad,	-	-	2,086,974 53
Thirty per cent. reserved to pay taxes and interest on debt of Philadelphia and Erie Railroad Company,	-	-	732,738 80
			<hr/> 15,844,060 58
Balance,	-	-	\$3,578,741 21
From which deduct payments made during the year to the shareholders of the Pennsylvania Railroad Company for dividends, \$1,737,969; the balance to debit of interest and coupon account, \$539,859 57; the amount due to the Harrisburg and Lancaster Railroad Company under lease, \$135,274 18; the taxes on dividends, and coupons, \$438,855.57; and the annual sum of \$460,000, due to the State of Pennsylvania for the purchase of the main line of public works, amounting in all to			
			<hr/> 3,301,958 32
Leaving a surplus of	-	-	<hr/> \$276,782 89

This is the result of the year's operations of your railways and canals, after charging all expenditures for new work and additional rolling stock, &c., together with an instalment of \$100,000 upon the principal of the debt due the State, &c., to expense account.

The demands upon your Treasury, during this year, in addition to the ordinary expenditures for operating the road, will be about the same as estimated for 1866. To the completion of the Connecting Railway, and the increase of facilities for business upon the Western Pennsylvania and Pittsburgh and

Columbus lines, there will be added the extension of the Tyrone and Clearfield Branch to the town of Clearfield, near the centre of the great lumber and coal region of the Alleghenies. A number of improvements upon the Main Line, heretofore deferred in consequence of the high rates of wages and materials will not admit of further delay; while the road between Lancaster and Philadelphia, located before the successful application of locomotive steam power upon railways, requires extensive alterations in its alignment, to place it in harmony with the other portions of your railway.

That portion of this line crossing the high range of hills bordering the Great Valley commencing near Haverford College, and extending to Valley Creek—a space of over twenty miles—embraces the worst located parts of the old line, and requires alterations which will amount to nearly a new road for this distance. An appropriation of a quarter of a million of dollars annually to this object for a few years, will make these changes; the interest upon which sum will be more than repaid in the diminished cost of moving and maintaining the rolling stock of the Company.

Your Directors have alluded in previous reports to the rapid destruction of iron rails, and the increased cost of replacing them, under the frequent interruptions to the workmen from the numerous trains now passing over the line. Every effort to materially improve the quality of the iron to meet the wants of the augmenting traffic of the trunk lines having heretofore failed, attention was directed to the introduction of steel rails, and, with a view to test their efficiency, the President, while in England, in 1862, ordered a few hundred tons for trial. These proved so satisfactory that larger importations have been made

of Bessemer steel rails, which have entirely confirmed our expectations of their success. The cost of steel rails is at present about twice the price of the best iron rails, while their durability is fully eight times greater. It is confidently believed, however, that with enlarged works, increased knowledge of the ores required to produce the best quality of this metal, and greater experience in its production, they will be successfully manufactured at home and the price very largely reduced. At present the demand is equal to the supply, and prices are maintained. To avoid the heavy annual outlays that a change from a cheap to a dearer material would necessarily entail upon your revenues, it is proposed to continue for the present to re-roll the worn-out rails, and replace the annual wear and tear with steel rails. The general introduction of steel rails is now wholly a commercial question, in which the cost of the increased capital required for their purchase becomes the chief impediment to their general adoption. While the business of a line is small, it will still be economy to use iron rails, at an ordinary rate of interest upon capital, until the cost of producing steel is reduced to its minimum. When this result is accomplished, the general public will be materially benefitted by the reduced cost of transportation which the introduction of steel rails will enable railway Companies to afford.

The Company has also laid 500 tons of rails the wearing surface of which had been "steeled" by Dodd's process. The increased durability imparted to the rail by this process will probably extend its life three-fold, while its additional cost thus prepared is about 25 per cent. From the result of our experience it would seem that rails so treated will prove a valuable article as an intermediate between steel and ordinary iron rails.

The Directors have given to the subject of establishing a line of steamships between this port and Europe, committed to them at your last annual meeting, all the consideration which its importance required; but they have not yet arrived at a satisfactory conclusion as to the best means of effecting this desirable object. Proposals have been asked until the first of May next, by public advertisement, of those engaged in this business to establish such a line, under concessions, and a subsidy to be paid by this Company during the continuance of the contract.

In their last Annual Report, your Directors referred to the introduction of express freight lines upon your railway as a new feature in the policy of the Company, and one which had heretofore been opposed by its officers as unnecessary to the efficient conduct of the transportation departments of the Trunk lines. While these views remain substantially unchanged, they are quite clear that the introduction of these lines upon the Pennsylvania Railroad—after every effort had been made to secure their withdrawal from rival lines—became not only a necessity, but a duty which the Board owed to the shareholders. A failure to make use of this weapon, so dexterously and persistently used by our competitors in various forms to promote their interests, would have shown as little foresight as would have been attributed to the General Government, if it had failed to meet the preparations, known to be in progress upon the Merrimac, by the building of a more efficient iron-clad.

From the statistics of the Company, it appears that the ordinary freight business of the road has continued to grow in its usual ratio since the introduction of these freight lines, showing that their sustenance is abstracted from the business

of similar organizations that exist upon rival routes, whose competition they were introduced to meet;—gaining for this Company a business not heretofore enjoyed by it, and which could not be secured by any other means.

It also appears from the same sources, that the freights brought to the road by these lines pay to the Company better net rates than is derived from any other portion of the Company's through business. The success of these lines, in collecting and distributing freights throughout the West, has been largely due to the inability of many of the Western railways to supply cars sufficient to accommodate the through traffic originating along their own and connecting roads, and, in consequence, the traffic has heretofore sought rival avenues, whose equipment was sufficient to furnish the means for its transportation.

Under existing contracts between this Company and the freight lines, it seems that the only point it is necessary to solve is, whether the rates charged for this freight by the railroad companies are as large as the express freight companies can pay, and preserve the full efficiency of their organizations. As at present advised, the Directors are disposed to believe that they are, and that the interests of the Company would suffer great damage by their withdrawal from its service, while such lines, or other organizations to effect the same objects, are maintained upon competing routes.

The chief element of profit of these freight lines has been in the *margins* paid to them, above the ordinary railroad rates, by merchants disposed to patronize a medium of transportation where the responsibility is direct, immediately accessible and undivided from the point of shipment to the point of delivery

of their merchandise ; rather than a line made up of various railway corporations, of whose responsibility they are not familiar. Advantages such as are afforded by these organizations, cannot for obvious reasons, be fully accorded to shippers by any railway Company.

That the enterprise has proved successful to its proprietors, in view of the large amount of capital ventured in an untried field, should be a matter of gratification to the shareholders of the Pennsylvania Railroad Company, whose interest it was intended to and has so largely promoted. This success is mainly due to the thorough knowledge of the freight business possessed by those to whom the control of these organizations was first entrusted, and their comprehension of the means required to achieve the objects of their creation, united to a disposition and ability to embark whatever capital was required to secure favorable results to this Company and themselves. In other hands it might have proved a failure.

The Board has deemed it important to say this much in explanation of their action upon a subject which has met with considerable animadversion from the captious, and to assure the shareholders that under its contract it has entire control of these organizations, and as long as their operations conduce to your interest, they will be maintained ; if otherwise, they will be abolished.

It will be gratifying to the shareholders to learn from a careful examination made of the statistics of the freighting business of the Company, that of the 3,186,359 tons of freight carried over the road during the past year only 158,264 tons of through freight has passed from points east of Philadelphia to and from Pittsburgh and the West, and 61,862 tons to and

from Baltimore, while 330,959 tons of through freight have been carried to and from Philadelphia and the West. The remainder, 2,635,274 tons, was local traffic of the State, between local stations and from them to and from Philadelphia and Pittsburgh. Philadelphia, therefore, in addition to the large local traffic mentioned, enjoys above one hundred per cent. more of the through traffic transported over the line than New York, Providence, Boston and all other points on the Atlantic sea-coast combined east of Philadelphia.

Since your last annual meeting, the Superintendent of Motive Power and Machinery, (J. P. Laird, Esq.,) resigned his position, and the Board has appointed as his successor, R. E. Ricker, Esq., who for many years had been connected with the active management of Western railways, and he will no doubt make a successful manager of the important department committed to his charge.

The acknowledgments of the Board are due to the officers of the Company generally, for the prompt and efficient manner in which the business of the line has been conducted during the past year.

By order of the Board,

J. EDGAR THOMSON,

President.

Resolved, That for the purpose of consolidating the Bonded and other indebtedness of the Pennsylvania Railroad Company and to raise funds to meet the annual demands upon the Treasury of the Company for new tracks, additional equipment, enlargement of depots, extensions of sidings, and to meet the legitimate demands of the traffic of the country drained by the road of said Company and its branches, for increased railroad accommodations, and also to preserve the proper relation between the share capital and debts of the Company, the following financial programme be and the same is hereby adopted :

First. That the Bonds of the Pennsylvania Railroad Company secured by the First and Second Mortgages, and those due the Commonwealth issued for the purchase of the Main Line of Public Works, and other indebtedness, be paid out of the proceeds of, or be retired by, Bonds to be secured by a Consolidated Mortgage upon the whole or such portion of the line from Philadelphia to Pittsburgh, with its equipment, and for such amount as the President and Board of Directors may determine, and the issue of the Bonds secured thereby shall at no time exceed the capital stock as the same may from time to time be increased.

Second. Dividends to be made semi-annually of *not exceeding* Four per cent. from the net profits of the Company, payable in cash, free of United States and State taxes, and that a stock dividend of Five per cent., based upon profits already earned, be declared at the regular dividend term in May next, and thereafter, in addition to the semi-annual cash dividend, a stock dividend of Five per cent. per annum be declared annually, if the net earnings of the Company will warrant the same.

Dr.

GENERAL ACCOUNT.

Cr.

Dr.		Cr.	
		DOLLARS.	CTS.
To Capital Stock.....			
“ First Mortgage 6 per cent. Bonds.....		20,000,000	00
“ Second “.....		4,980,000	00
“ Lien of State upon the public works sold to this Company, bearing 5 per cent.....		4,904,840	00
“ Short Bonds, or Debentures, 6 per cent.....		6,000,000	00
“ Mortgages and Ground Rents, 6 per cent.....		1,554,015	75
“ Bills and Accounts payable, including Dividends due to Stockholders, unpaid.....		170,184	32
“ Extra Dividend Fund.....		3,062,144	45
“ Contingent Fund.....		1,110,000	00
“ Balance		1,000,000	00
		870,415	02
		44,251,599	54
By Balance standing on Books of Company for the Construction of the Railroad between Harrisburg and Pittsburgh, including Branches to Indiana and Hollidaysburg, (in all 276 miles), also for Cost of Stations, Warehouses, Shops and Shop Machinery, on the whole road from Philadelphia to Pittsburgh.....		\$13,500,000 00	
“ Balance standing on the Books of the Company for the purchase of the Philadelphia and Columbia Railroad and the Pennsylvania Canals.....		6,600,000 00	
“ Balance standing to the debit of Equipment of Road, consisting of 452 Locomotives, 240 Passenger Cars, 103 Baggage, Mail and Express Cars, 6,953 Freight Cars, and 923 Road Cars.....		3,371,214 93	
“ Cost of Real Estate of Company and Telegraph Line....		3,421,480 91	
“ Extensions of Pennsylvania Railroad to the South Bank of the Monongahela and to the Delaware River, including Wharves and Grain Elevator.....		2,121,157 77	
“ 14,533 Shares Harrisburg and Lancaster Railroad Stock.....		29,013,853	61
“ Western Pennsylvania Railroad Stock and Bonds.....		726,650	00
“ Cost of First and Second Mortgage Bonds, Pittsburgh and Steubenville Railroad Company.....		183,450	00
“ Steubenville and Indiana Railroad First Mortgage Bonds owned by Company.....		738,205	20
“ Philadelphia and Erie Convertible 7 per cent. Bonds, (the remainder of the \$3,000,000 loan being in Sinking Fund)		1,262,651	52
“ Amount of other Bonds and Stocks of Municipal and Railroad Corporations.....		439,000	00
“ Bonds and Stocks in Sinking Fund.....		1,570,342	74
“ Amount of Fuel and Materials on hand for repairs to Locomotives, Cars, and Maintenance of Way on Pennsylvania Railroad.....		1,996,367	68
“ Amount advanced to pay for Fuel and Materials on hand for repairs to Locomotives, Cars, and Maintenance of Way for Philadelphia and Erie Railroad.....		1,378,404	10
“ Amount advanced to operate Philadelphia and Erie Railroad.....		449,220	39
“ “ of Bills and Accounts Payable and Amount due from other Railroads.....		725,130	02
“ Balance in hands of Agents.....		4,148,063	93
“ “ Treasurer, including \$420,000 U. S. 5-20's.....		577,018	89
		1,043,241	46
		44,251,599	54

NOTE.—The Cost of the Harrisburg and Lancaster Railroad, when acquired by this Company, will amount to \$1,882,550, and is not included in this account.

E. & O. E.—Philadelphia, December 31, 1866.

THOMAS T. FIRTH, Treasurer.

